

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG SANDY RURAL)	
ELECTRIC COOPERATIVE CORPORATION FOR)	
AUTHORIZATION TO BORROW \$872,900.24)	CASE NO.
FROM COBANK AND EXECUTE NECESSARY)	2011-00408
NOTES AND TO REPAY COOPERATIVE)	
FINANCE CORPORATION NOTES IN THE SAME)	
AMOUNT)	

O R D E R

On October 5, 2011, Big Sandy Rural Electric Cooperative Corporation ("Big Sandy") submitted its application for authority to execute notes to CoBank, ACB ("CoBank") in the amount of \$872,900.24.¹ Big Sandy intends to use the proceeds from the CoBank loan to refinance and discharge part of its indebtedness to the National Rural Utilities Cooperative Finance Corporation ("CFC"). Due to the lower interest rate offered by CoBank, Big Sandy projects a lifetime cash flow savings of approximately \$272,437.09 over the life of the loan.²

As of September 15, 2011, Big Sandy's outstanding balance of CFC debt was \$4,773,637.³ The outstanding balance of CFC debt is made up of debt with

¹ Application at ¶ 7.

² Application at ¶ 12.

³ Application, Exhibit 1.

interest rates varying from 2.85 percent to 6.46 percent. Big Sandy has outstanding long-term debt with Rural Utilities Service ("RUS") in the amount of \$9,298,833 at interest rates varying from 2.2 percent to 4.93 percent.⁴ Big Sandy also has outstanding debt with Federal Financing Bank of \$9,085,144 at interest rates varying from .021 percent to 4.472 percent.

Of its total outstanding CFC debt, Big Sandy proposes to refinance \$872,900.24 under the CoBank program. The refinancing of the debt is permitted by CFC under Article II, Section 2.02, of the CFC Mortgage.⁵ Big Sandy has this amount fixed with CoBank through November 30, 2011.⁶ Big Sandy has noted that, as long as the order approving the refinancing can be issued by November 15, 2011, the proposed financing could be closed by November 30, 2011.⁷

Big Sandy proposes to execute one note in conjunction with the borrowing from CoBank at a fixed interest rate of 3.47 percent. The new CoBank note would be amortized for a period of eight years.⁸ The new CoBank note would also allow Big

⁴ Application, Exhibit 1.

⁵ Application, Exhibit 4.

⁶ Application, page 1. Because it has fixed the amount for the CoBank loan, Big Sandy expects the actual payoff to be very close to \$872,900.24. In the event the actual payoff of the RUS loans is different, Big Sandy proposes to adjust any difference through its line of credit agreement with CoBank. See Application at ¶ 8.

⁷ Informal Conference Memorandum, October 20, 2011.

⁸ Application, Exhibit 5, page 4.

Sandy to pay off two of the notes to be refinanced earlier than their maturity date.⁹ The average remaining life of the CFC notes selected for repayment is 13.2 years.

Big Sandy provided a cash flow analysis based on the \$872,900.24 amount that indicates it could save \$272,437.09 over the life of the loan.¹⁰ The net present value of the cash flow savings was provided as part of the analysis prepared by CoBank for Big Sandy. CoBank determined that the fixed interest rate would result in a positive net present value cash flow of \$209,587.02.¹¹

The Commission has reviewed the proposed refinancing and finds Big Sandy's proposal to be reasonable. Big Sandy has determined that it can refinance a portion of its CFC debt at a lower effective interest rate and experience cash flow savings over the period of the loan. The Commission commends Big Sandy for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its member-consumers.

The final amounts of the CFC payoff and the new CoBank loan will not be known until the refinancing transaction is finalized. Therefore, Big Sandy should provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction. In addition, Big Sandy should provide an updated version of Exhibit 5, pages 2 through 5, of its application reflecting the cash flow and the net present value analyses of the cash flow for the new CoBank loan.

⁹ Application, Exhibit 5, page 1.

¹⁰ Application at ¶ 12 and Exhibit 5, page 2.

¹¹ Id.

In recognition of the volatility of interest rates and the potential impact that changes in the interest rates could have on the benefits of the CoBank refinancing program, the Commission has expedited the processing of Big Sandy's application. We note that Big Sandy assisted this processing by filing its application in compliance with the applicable filing requirements and providing the cash flow and net present value analysis with its application.

The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

1. The loan from CoBank is for lawful objects within the corporate purposes of Big Sandy, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public, will not impair its ability to perform that service, is reasonable, necessary, and appropriate for such purposes, and should be approved.

2. Big Sandy should execute its note as security for the proposed loan in the manner described in its application.

3. Within 10 days of finalizing the refinancing transaction, Big Sandy should notify the Commission in writing of the exact amount of the new CoBank loan. Big Sandy should include with the notice an updated version of Exhibit 5, pages 2 through 5, from its application reflecting the savings based on the actual amount of the new CoBank loan.

4. Within 10 days of the execution of the new CoBank loan documents, Big Sandy should file with the Commission three copies of the loan documents.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Big Sandy's application.

6. The terms and conditions of the new CoBank loan should be consistent with the CoBank refinancing program as described in Big Sandy's application.

IT IS THEREFORE ORDERED that:

1. Big Sandy is authorized to borrow up to \$872,900.24, but no more than the total CFC payoff, from CoBank. The loan maturity dates and interest rates shall be in accordance with the CoBank refinancing program as described in Big Sandy's application.

2. Big Sandy shall execute the CoBank loan documents as authorized herein.

3. Big Sandy shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

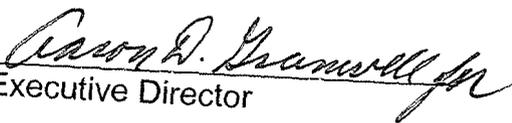
4. Any documents filed in the future pursuant to finding paragraphs 3 and 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission

ENTERED 
NOV 01 2011
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Mr. David Estep
President & General Manager
Big Sandy R.E.C.C.
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